



Financial Management Report as of MARCH 31, 2011

AT A GLANCE:

Higher tax, licensing and permitting revenue and engineering charges push 2011 ahead of 2010 year-to-date
(page 3)

2011 Sales tax revenue ahead of 2010
(page 5)

Kirkland's got a new online address
(page 2 sidebar)

Recovering economy holding ground and slowly improving? (pages 7-8)

Inside this issue:

Expenditure Summary 2

General Fund Revenue 3

General Fund Expenditures 4

Sales Tax Revenue 5

Economic Environment Update 7

Investment Report 8

Reserve Summary 10

Summary of All Operating Funds: *Revenue*

- **General Fund** actual 2011 revenue is **12.8 percent ahead** of the same period last year (more than \$1.3 million), largely due to higher tax, licenses and permits revenue and an increase in engineering charges. Additionally, the Recreation Fund was combined with the General Fund in 2011. As a result, recreation fee revenues are now reflected in the General Fund and account for almost 25 percent of the revenue gain received in the first quarter of 2011 compared to 2010. However, recreation class revenue is down 4.1 percent compared to the same period last year. A more detailed analysis of General Fund revenue can be found on page 3, and sales tax revenue performance can be found beginning on page 5.
 - **Other General Government Funds** actual 2011 revenue is **0.9 percent ahead** of the same period last year. Accounting for the move of recreation revenues to the General Fund this year, 2011 Other General Government Funds are 14.5 percent ahead of the same period last year. Lodging tax revenue is up 8.1 percent compared to the same period last year. Motor vehicle fuel tax is down 1.8 percent compared to the same period last year. The fuel tax is collected on a flat rate per gallon, so higher fuel prices may result in reduced consumption. Facilities rental revenue is up significantly due to rental revenue from the building purchased in 2010, which will be renovated for a new public safety facility. The building is currently occupied by a tenant until the project is underway.
 - **Water Sewer Operating Fund** actual 2011 revenue is **6.6 percent ahead** of the same period last year, largely due to a sewer rate increase.
 - **Surface Water Management Fund** actual 2011 revenue is **31.1 percent ahead** of the same period last year primarily due to the receipt of grant revenues and the timing of interest revenue received in 2011. Rate revenue is up 10.4 percent, partially due to a rate increase effective in 2011. Rates are paid through property taxes, which are primarily received in April and October.
 - **Solid Waste Fund** actual 2011 revenue is **0.9 percent behind** the same period last year.
- This report will be a challenge to interpret in 2011 due to annexation, which will impact expenditures and revenues at different times throughout the year. In particular, the City will incur increasing expenses month-by-month as we are gearing up for annexation, but no revenue from the annexation area will be collected until July and the bulk of the revenue will not be received until the fourth quarter.*

Resources by Fund	Year-to-Date Actual			Budget			% of Budget	
	3/31/2010	3/31/2011	% Change	2010	2011	% Change	2010	2011
General Gov't Operating:								
General Fund	10,426,356	11,757,461	12.8%	54,706,544	69,725,756	27.5%	19.1%	16.9%
Other General Gov't Operating Funds	3,141,764	3,168,824	0.9%	15,798,095	16,490,820	4.4%	19.9%	19.2%
Total General Gov't Operating	13,568,120	14,926,285	10.0%	70,504,639	86,216,576	22.3%	19.2%	17.3%
Utilities:								
Water/Sewer Operating Fund	4,290,593	4,574,168	6.6%	20,660,066	19,810,646	-4.1%	20.8%	23.1%
Surface Water Management Fund	203,676	267,011	31.1%	5,270,500	6,477,992	22.9%	3.9%	4.1%
Solid Waste Fund	2,142,604	2,123,972	-0.9%	8,627,630	12,810,339	48.5%	24.8%	16.6%
Total Utilities	6,636,873	6,965,150	4.9%	34,558,196	39,098,977	13.1%	19.2%	17.8%
Total All Operating Funds	20,204,993	21,891,436	8.3%	105,062,835	125,315,553	19.3%	19.2%	17.5%

Budgeted and actual revenues exclude resources forward and interfund transfers.



Kirkland's Got a New Online Address

With the upcoming annexation of the Finn Hill, North Juanita and Kingsgate areas, some residents will see a change in their postal address. The City of Kirkland also has had an address change. As of April 6, 2011, the official City of Kirkland government website changed to:

www.kirklandwa.gov.

City email addresses also change to the new domain.

"As we welcome our new neighbors in the annexation area, we wanted to have an easier web and email address for all of our residents to use," notes City Manager Kurt Triplett.

To contact an individual City Council or staff member, use the following email pattern:

First Letter of First Name +
Full Last Name
@kirklandwa.gov.

Example: Joe Smith,
jsmith@kirklandwa.gov.

There is an online city staff directory at www.kirklandwa.gov (Select: Contact Us.)

The new domain (kirklandwa.gov) will work concurrently with the old web and email addresses through 2012. This will allow for the update over time of city documents, stationery, publications, web pages, and links to other web-sites.

To report broken links on the City's website, email webmaster@kirklandwa.gov or call the IT Department at 425-587-3200.

Summary of All Operating Funds: *Expenditures*

- **General Fund** actual expenditures are **5.2 percent ahead** of last year primarily due to increased personnel and supply costs associated with preparation for annexation, public safety radio replacement and the restoration of a 3.4 percent salary reduction taken by most employees related to furlough days in 2010. A more detailed analysis of General Fund expenditures by department is found on page 4.
- **Other Operating Funds** actual expenditures are **5.2 percent ahead** of the same period last year due to higher computer hardware expenses, substantially higher facility utility costs, and despite substantially lower vehicle/equipment purchases. Facility utility costs are up more than 50 percent, mainly due to winter weather and partially due to the addition of the building purchased for the public safety facility. Vehicle replacement costs vary year-to-year depending on the planned replacement cycle.
- **Water/Sewer Operating Fund** actual expenditures are **18.0 percent ahead** of the same period last year primarily due to an increase in water purchases and regional water connection charges (with a corresponding increase in connection revenue).
- **Surface Water Management Fund** actual expenditures are **0.2 percent behind** the same period last year due to lower personnel costs and normal variability in the timing of payment for various services.
- **Solid Waste Fund** actual expenditures are **37.0 percent ahead** of the same period last year due to the timing of disposal contract billing payments. The individual monthly contract payments are significant, so timing of the payments can skew comparisons. However, total payments made by the end of the year match up to the contract.

Expenditures by Fund	Year-to-Date Actual			Budget			% of Budget	
	3/31/2010	3/31/2011	% Change	2010	2011	% Change	2010	2011
General Gov't Operating:								
General Fund	14,561,397	15,312,577	5.2%	58,149,798	67,468,176	16.0%	25.0%	22.7%
Other General Gov't Operating Funds	3,339,617	3,512,576	5.2%	13,326,213	16,489,268	23.7%	25.1%	21.3%
Total General Gov't Operating	17,901,015	18,825,153	5.2%	71,476,011	83,957,444	17.5%	25.0%	22.4%
Utilities:								
Water/Sewer Operating Fund	3,517,264	4,149,185	18.0%	15,903,927	16,454,624	3.5%	22.1%	25.2%
Surface Water Management Fund	759,077	757,635	-0.2%	3,387,458	4,338,993	28.1%	22.4%	17.5%
Solid Waste Fund	1,479,102	2,026,512	37.0%	8,596,408	12,444,389	44.8%	17.2%	16.3%
Total Utilities	5,755,443	6,933,332	20.5%	27,887,793	33,238,006	19.2%	20.6%	20.9%
Total All Operating Funds	23,656,458	25,758,485	8.9%	99,363,804	117,195,450	17.9%	23.8%	22.0%

Budgeted and actual expenditures exclude working capital, operating reserves, capital reserves, and interfund transfers.

General Fund Revenue

Many significant General Fund revenue sources are economically sensitive, such as sales tax and development-related fees.

- **Sales tax** revenue allocated to the General Fund for 2011 was **4.6 percent ahead** of the same period last year. A detailed analysis of total **sales tax** revenue can be found starting on page 5.
- **Utility tax** actual revenue collection was **1.7 percent ahead** of the same period last year, despite significantly lower revenue from telephone utilities (15.6 percent). All other utility revenue in the first quarter of 2011 exceeded revenue collections in the same period last year.
- **Other taxes** actual revenue was **14.7 percent behind** the same period last year due to lower gambling revenue.
- The **business licenses (base fee) and franchise fees** actual revenue was **29.8 percent ahead** of the same period last year. This increase is due to timing of franchise fee payments, with a late 2010 payment receipted in the first quarter of 2011. Removing this payment makes the actual revenues in the first quarter of 2011 ahead 7.6 percent compared to the same period last year.
- The **revenue generating regulatory license** fee was **8.1 percent ahead** of the same period last year and ahead of budget expectations. Part of the increase is due to the renewal of Google's business license in January, reflecting their ramp up in staffing.
- The **development-related fee** revenues, were collectively **ahead 44.4 percent** compared to the same period in 2010. Compared to the same period last year, **building permits** and **plan check revenue** were collectively **ahead 21.5 percent**
- and **engineering services** revenue was **736.2 percent ahead** due to receipt of two large school permits. **Planning fees** revenue was **ahead 20.2 percent** due to a significant increase in review applications, which may be a hopeful sign of improvement in future development activity. The increase in total development-related fees is also due to historically low collections during the same period in 2010.
- Compared to the same period last year: **Grant** revenue is **behind 17.4 percent** due to funding received for several grants in the first quarter of 2010 that were not received in 2011; **Other intergovernmental services** revenue is **41.9 percent below** last year's actual due to the elimination of a contract to provide staffing to the regional Criminal Justice Training Center, a contract providing building inspection services to the City of Issaquah and a reduction in the provision of intergovernmental court services. It should be noted that revenue from Fire District 41 is usually received quarterly. The first quarter payment was not receipted until the second quarter due to the necessary reconciliation calculation for 2010 charges to the district.
- **Internal Charges** are **15.5 percent ahead** compared to the same period last year. Most internal charges have increased due to additional costs for annexation.
- **Other financing sources** Interfund Transfers budget is significantly lower than 2010 due to fund restructuring, including the combining of the recreation fund with the General Fund.

General Fund 2011 revenues are \$1,331,105 higher than the same period in 2010 largely due to higher property and sales taxes and business licenses/franchise fees revenue and despite lower intergovernmental revenue.

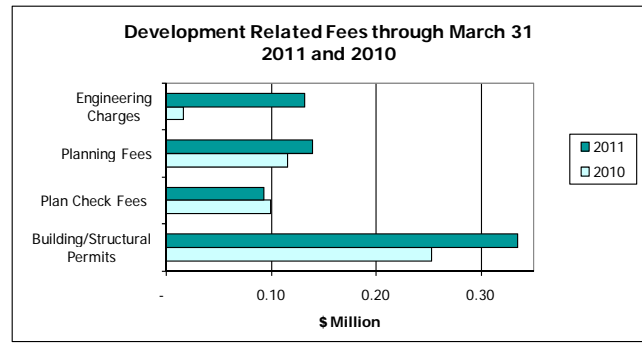
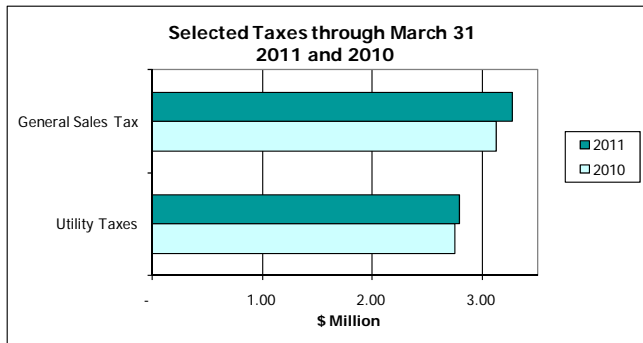
The General Fund is the largest of the General Government Operating funds. It is primarily tax supported and accounts for basic services such as public safety, parks and recreation, and community development.

About 412 of the City's 521 regular employees are budgeted for 2011 within this fund.

General Fund Resource Category	Year-to-Date Actual			Budget			% of Budget	
	3/31/2010	3/31/2011	% Change	2010	2011	% Change	2010	2011
Taxes:								
Retail Sales Tax: General	3,129,978	3,274,456	4.6%	11,464,179	12,885,899	12.4%	27.3%	25.4%
Retail Sales Tax Credit: Annexation	-	-	N/A	-	1,129,866	N/A	N/A	N/A
Retail Sales Tax: Criminal Justice	241,152	244,298	1.3%	1,129,140	1,149,997	1.8%	21.4%	21.2%
Property Tax	443,187	607,005	37.0%	9,904,815	13,261,709	33.9%	4.5%	4.6%
Utility Taxes	2,748,632	2,796,567	1.7%	10,965,526	12,436,696	13.4%	25.1%	22.5%
Rev Generating Regulatory License	617,310	667,300	8.1%	2,567,468	2,406,234	-6.3%	24.0%	27.7%
Other Taxes	111,802	95,391	-14.7%	466,129	312,250	-33.0%	24.0%	30.5%
Total Taxes	7,292,060	7,685,017	5.4%	36,497,257	43,582,651	19.4%	20.0%	17.6%
Licenses & Permits:								
Building, Structural & Equipment Permits	252,445	334,533	32.5%	1,436,990	1,748,605	21.7%	17.6%	19.1%
Business Licenses/Franchise Fees	456,203	592,014	29.8%	1,720,921	2,878,614	67.3%	26.5%	20.6%
Other Licenses & Permits	82,580	84,384	2.2%	175,460	217,579	24.0%	47.1%	38.8%
Total Licenses & Permits	791,228	1,010,931	27.8%	3,333,371	4,844,798	45.3%	23.7%	20.9%
Intergovernmental:								
Grants and Federal Entitlements	154,177	127,308	-17.4%	503,699	1,894,984	276.2%	30.6%	6.7%
State Shared Revenues & Entitlements	237,197	193,356	-18.5%	809,010	979,578	21.1%	29.3%	19.7%
Fire District #41	(59,100)	-	N/A	3,598,238	3,684,071	N/A	N/A	N/A
EMS	-	-	N/A	866,231	868,678	N/A	N/A	N/A
Other Intergovernmental Services	144,824	84,121	-41.9%	547,394	386,248	-29.4%	26.5%	21.8%
Total Intergovernmental	477,098	404,785	-15.2%	6,324,572	7,813,559	23.5%	7.5%	5.2%
Charges for Services:								
Internal Charges	1,179,579	1,362,543	15.5%	4,707,822	5,589,009	18.7%	25.1%	24.4%
Engineering Services	15,701	131,297	736.2%	225,000	393,669	75.0%	7.0%	33.4%
Plan Check Fee	99,470	93,089	-6.4%	408,252	1,115,779	173.3%	24.4%	8.3%
Planning Fees	115,403	138,662	20.2%	245,420	455,041	85.4%	47.0%	30.5%
Recreation	-	311,258	N/A	-	1,162,406	N/A	N/A	26.8%
Other Charges for Services	184,017	195,011	6.0%	770,890	1,709,373	121.7%	23.9%	11.4%
Total Charges for Services	1,594,170	2,231,860	40.0%	6,357,384	10,425,277	64.0%	25.1%	21.4%
Fines & Forfeits	237,660	328,361	38.2%	1,539,268	2,435,490	58.2%	15.4%	13.5%
Miscellaneous	34,139	96,508	182.7%	654,692	623,981	-4.7%	5.2%	15.5%
Total Revenues	10,426,356	11,757,461	12.8%	54,706,544	69,725,756	27.5%	19.1%	16.9%
Other Financing Sources:								
Interfund Transfers	-	-	N/A	2,275,530	175,494	N/A	N/A	N/A
Total Other Financing Sources	-	-	N/A	2,275,530	175,494	N/A	N/A	N/A
Total Resources	10,426,356	11,757,461	12.8%	56,982,074	69,901,250	22.7%	18.3%	16.8%

Budgeted and actual revenues exclude resources forward.

General Fund Revenue *continued*



General Fund Expenditures

General Fund Department Expenditures	Year-to-Date Actual			Budget			% of Budget	
	3/31/2010	3/31/2011	% Change	2010	2011	% Change	2010	2011
Non-Departmental	290,493	218,853	-24.7%	1,525,820	1,741,543	14.1%	19.0%	12.6%
City Council	170,300	139,790	-17.9%	353,130	318,241	-9.9%	48.2%	43.9%
City Manager's Office	732,691	791,232	8.0%	3,115,861	3,500,729	12.4%	23.5%	22.6%
Human Resources	246,901	292,690	18.5%	1,124,972	1,206,812	7.3%	21.9%	24.3%
City Attorney's Office	248,112	264,300	6.5%	984,121	1,160,116	17.9%	25.2%	22.8%
Parks & Community Services	1,514,901	1,501,740	-0.9%	6,722,519	7,053,447	4.9%	22.5%	21.3%
Public Works (Engineering)	830,012	831,820	0.2%	3,340,832	3,678,383	10.1%	24.8%	22.6%
Finance and Administration	865,373	978,941	13.1%	3,743,652	4,093,047	9.3%	23.1%	23.9%
Planning & Community Development	682,469	691,799	1.4%	2,730,557	3,079,987	12.8%	25.0%	22.5%
Police	4,408,487	4,866,456	10.4%	17,188,807	21,971,010	27.8%	25.6%	22.1%
Fire & Building	4,571,661	4,734,957	3.6%	17,319,527	19,664,861	13.5%	26.4%	24.1%
Total Expenditures	14,561,397	15,312,577	5.2%	58,149,798	67,468,176	16.0%	25.0%	22.7%
Other Financing Uses:								
Interfund Transfers	151,969	629,344	314.1%	1,024,920	3,575,316	248.8%	14.8%	17.6%
Total Other Financing Uses	151,969	629,344	314.1%	1,024,920	3,575,316	248.8%	14.8%	17.6%
Total Expenditures & Other Uses	14,713,366	15,941,921	8.3%	59,174,718	71,043,492	20.1%	24.9%	22.4%

Budgeted and actual expenditures exclude working capital, operating reserves, and capital reserves.

The 2011 Budget incorporates budget reductions in response to the economic downturn, additions as a result of annexation, the move to medical self-insurance, the restoration of 3.4 percent salary reductions taken in 2010, and fund restructuring to comply with accounting rule changes. These changes make comparisons to the 2010 budget challenging. Specific factors for individual departments are noted below:

Comparing to the same period last year:

- Actual 2011 expenditures for **Non-Departmental** were **24.7 percent behind** 2010 primarily due to initial savings from self-insurance for public safety retiree medical insurance premiums.
- Actual 2011 expenditures for the **City Council** were **17.9 percent behind** 2010 primarily due to a one time citizen survey paid in the first quarter of 2010.
- Actual 2011 expenditures for the **City Manager's Office** were **8.0 percent ahead** due to an increase in Municipal Court staffing with corresponding workload and revenue increases.
- Actual 2011 expenditures for **Human Resources** were **18.5 percent ahead** compared to the same period in 2010 due to an increase in personnel costs related to annexation and self-insurance staffing.
- Actual 2011 expenditures for **City Attorney's Office** were **6.5 percent ahead** compared to the same period in 2010 due to an increase in legal fees.
- Actual 2011 expenditures for the **Parks & Community Services Department** were **0.9 percent behind** 2010 due to unfilled positions and service level reductions taken in 2011.

Compared to 2010, 2011 General Fund actual expenditures are 8.3 percent ahead, despite reductions taken in response to the economic downturn, primarily due to restoration of a 3.4 percent salary reduction taken in 2010, costs associated with the upcoming annexation, and fund restructuring to comply with accounting rule changes.

(Continued on page 5)

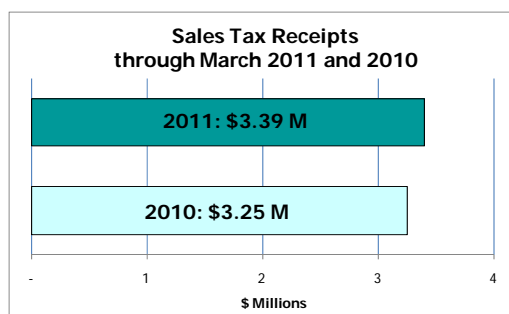
Financial Management Report as of MARCH 31, 2011

- Actual 2011 expenditures for the **Public Works Department** are **0.2 percent ahead** of 2010 almost entirely due to staffing reductions and reallocations.
- Actual 2011 expenditures for the **Finance and Administration Department** are **13.1 percent ahead** due to election costs paid in 2011 and added costs in anticipation of annexation.
- Actual 2011 expenditures for the **Planning and Community Development Department** are **1.4 percent ahead** due to personnel costs.
- Actual 2011 expenditures for the **Police Department** are **10.4 percent ahead** due to staffing (and related expenses) hired in anticipation of annexation, which commences June 1, 2011. Increases to jail costs, which have been a concern over the last few years, have moderated due to contracts with other agencies for lower rates than those charged by King County.
- Actual 2011 expenditures for the **Fire & Building Department** are **3.6 percent ahead** due to an increase in benefit costs and the replacement of portable radios. Fire suppression overtime expenses in 2011 are down about 28 percent compared to the same period last year.



Ribbon cutting at the grand opening of the Kirkland Transit Center on February 25, 2011

Sales Tax Revenue Analysis 2011 sales tax revenue, in the first quarter, is **up 4.4 percent** compared to the same period last year. Normalizing for a significant field recovery in January the increase drops to 3.2 percent. The primary reasons are improvements to the retail sectors (up 5.3 percent collectively over the same period last year) largely driven by auto/gas retail and general merchandise/miscellaneous retail. Declines in the other retail and wholesale sectors offset gains in other sectors in the first quarter of 2011.



Review by business sectors:

- The **auto/gas retail** sector is **up 9.4 percent** compared to last year. Although remaining positive, this sector has slowed over the last couple of months.
- Other retail** is **down 6.1 percent** compared to last year due to declines in electronics, and health/personal retailers despite increased revenues to food and beverage retailers and building and garden retailers.
- The **services** sector is **up 3.9 percent** compared to last year, largely due to internet services and professional scientific sectors and despite a negative performance in the health care sector. The accommodations sector is up 8.0 percent or about \$3,800.
- Wholesale** is **down 15.2 percent** compared to last year due to variations in development-related activity and despite positive impacts from the streamlined sales tax sourcing rule change.
- The **miscellaneous** sector is **up 1.0 percent** compared to the same period last year due to slight increases in the real estate sector.
- The **contracting** sector is **up 0.5 percent** compared to last year despite negative performance in March. While this is a significant improvement from last year, the sector is significantly below the peak year of 2007 (43.2 percent below).
- The **general merchandise/miscellaneous retail** sector is **up 12.6 percent** compared to last year despite weak performance in March. This sector had the largest declines in revenue performance in 2010, so the positive year-to-date performance is encouraging.
- The **retail eating/drinking** sector performance is **down 0.1 percent** compared to last year as many restaurants continue to struggle to return to positive performance.
- The **communications** sector is **up 42.5 percent** compared to last year due to significant development related activity from a telecommunications company in early 2011.

Streamlined Sales Tax

Washington State implemented new local coding sales tax rules as of July 1, 2008 as a result of joining the national Streamlined Sales Tax Agreement. Negative impacts from this change are mitigated by the State of Washington. The first quarter 2011 payment of about \$27,000 was received in March.

Neighboring Cities

Bellevue and Redmond 2011 sales tax revenue through March is up 2.6 percent and 13.5 percent respectively compared to the same period in 2010. Redmond is much higher due to \$1.5 million in field recoveries received in February 2011.

City of Kirkland Actual Sales Tax Receipts

Business Sector Group	January-March		Dollar Change	Percent Change	Percent of Total	
	2010	2011			2010	2011
Services	416,657	433,090	16,433	3.9%	12.8%	12.8%
Contracting	423,797	426,013	2,216	0.5%	13.1%	12.6%
Communications	114,218	162,764	48,546	42.5%	3.5%	4.8%
Auto/Gas Retail	732,477	801,329	68,852	9.4%	22.6%	23.6%
Gen Merch/Misc Retail	484,908	545,860	60,952	12.6%	14.9%	16.1%
Retail Eating/Drinking	262,947	262,723	(224)	-0.1%	8.1%	7.7%
Other Retail	444,480	417,226	(27,254)	-6.1%	13.7%	12.3%
Wholesale	177,779	150,822	(26,957)	-15.2%	5.5%	4.4%
Miscellaneous	190,212	192,135	1,923	1.0%	5.9%	5.7%
Total	3,247,475	3,391,962	144,487	4.4%	100.0%	100.0%

Kirkland's sales tax base is comprised of a variety of businesses which are grouped and analyzed by business sector (according to NAICS, or "North American Industry Classification System"). Nine business sector groupings are used to compare 2010 and 2011 year-to-date sales tax receipts in the table to the left.

City of Kirkland Actual Monthly Sales Tax Receipts

Month	Sales Tax Receipts		Dollar Change	Percent Change
	2010	2011		
January	945,992	1,082,225	136,233	14.4%
February	1,364,023	1,366,850	2,827	0.2%
March	937,460	942,887	5,427	0.6%
Total	3,247,475	3,391,962	144,487	4.4%

When analyzing monthly sales tax receipts, there are two items of special note: First, most businesses remit their sales tax collections to the Washington State Department of Revenue on a monthly basis. Small businesses only have to remit their sales tax collections either quarterly or annually, which can create anomalies when comparing the same month between two years. Second, for those businesses which remit sales tax monthly, there is a two month lag from the time that sales tax is collected to the time it is distributed to the City. For example, sales tax received by the City in March is for sales activity in January. Monthly sales tax receipts through March 2010 and 2011 are compared in the table above.

- Monthly revenue performance in 2011 has maintained the improvements seen in 2010 after the mostly double digit declines experienced throughout 2009.
- January 2011 was substantially ahead of January 2010 however, a substantial portion of the gain was one-time. Field recoveries and large one-time receipts accounted for almost half of the gain. The increase was 7.8 percent after factoring out these one-time events.
- Receipts for February reflect activity during the critical holiday retail sales month of December. Positive performance for holiday shopping experienced both nationally and regionally may have contributed to January's good results, but were not experienced in Kirkland in February.
- 2011 sales tax revenue was budgeted to remain the same as 2010, so positive performance is a net gain to offset volatility that may be experienced later this year in this revenue source or in other revenue sources.

Kirkland's sales tax base is further broken down by business district (according to geographic area), as well as "unassigned or no district" for small businesses and businesses with no physical presence in Kirkland.

Comparing to the same period last year:

Totem Lake, which accounts for almost 31 percent of the total sales tax receipts, is **up 3.5 percent** primarily due to positive performance in the automotive/gas retail sales.

Almost 57 percent of this business district's revenue comes from the auto/gas retail sector.

NE 85th Street, which accounts for over 15 percent of the total sales tax receipts, is **up 1.7 percent** primarily due to automotive/gas retail sector. These sector contribute about 38 percent of this business district's revenue.

Downtown, which accounts for over 6 percent of the total sales tax receipts, is **down 5.2 percent** due to poor performance in the retail eating/drinking sector. The retail eating/drinking and accommodations sectors and other retail provide over 69 percent of this business district's revenue.

Carillon Point & Yarrow Bay, which account for about 5 percent of the total sales tax receipts, are **up 133.8 percent**

compared to last year primarily due to communications, other retail and the accommodations sectors, and despite poor performance in the retail eating/drinking sector. About 29 percent of this business district's revenue comes from business services, retail eating/drinking and accommodations.

Houghton & Bridle Trails, which account for about 2 percent of the total sales tax receipts, are **up 18.8 percent** collectively almost entirely due to other retail, primarily due to a new retail business that opened in May 2010. The retail sectors provide about 72 percent of these business districts' revenue.

Juanita, which accounts for about 2 percent of the total sales tax receipts, is **down 9.9 percent** primarily due to retail eating/drinking. Retail auto/gas and business services. These sectors, along with miscellaneous retail, provide almost 71 percent of this business district's revenue.

When reviewing sales tax receipts by business district, it's important to point out that over 40 percent of the revenue received in 2011 is in the "unassigned or no district" category largely due to contracting and other revenue, which includes revenue from Internet, catalog sales and other businesses located outside of the City.

City of Kirkland Sales Tax by Business District

Business District	Jan - Mar Receipts		Dollar Change	Percent Change	Percent of Total	
	2010	2011			2010	2011
Totem Lake	999,424	1,034,647	35,223	3.5%	30.8%	30.5%
NE 85th St	511,279	519,741	8,462	1.7%	15.7%	15.3%
Downtown	231,108	219,146	(11,962)	-5.2%	7.1%	6.5%
Carillon Pt/Yarrow Bay	70,089	163,875	93,786	133.8%	2.2%	4.8%
Houghton & Bridle Trails	70,387	83,605	13,218	18.8%	2.2%	2.5%
Juanita	71,490	64,438	(7,052)	-9.9%	2.2%	1.9%
Unassigned or No District:						
Contracting	423,797	426,013	2,216	0.5%	13.1%	12.6%
Other	869,901	880,497	10,596	1.2%	28.9%	27.8%
Total	3,247,475	3,391,962	144,487	4.4%	100.0%	100.0%

Sales Tax Revenue Outlook Sales tax receipts has been positive for 2011 compared to 2010, as illustrated in the monthly chart on the previous page. One-time field recoveries has supplemented the increase by a little more than one percent. Upside trends pose potential risks—the general merchandise/miscellaneous retail, automotive/gas retail and communications sectors have contributed the largest amount of gain, but these sectors are very sensitive to economic conditions. Contracting saw a significant increase in January, which offset the declines experienced in February and March. Other retail, wholesale and retail eating/drinking have not shown signs of recovery. The impact from streamlined sales tax sourcing rule changes has negatively impacted some sectors, but is offset by gains in others. The shaky economic recovery poses significant risk to the City's ability to maintain services, since sales tax is one of the primary sources of general fund revenue. Changes in revenue structure over the last few years has provided some balance to offset the volatility inherent in sales tax.

OFFICE VACANCIES:

According to CB Richard Ellis Real Estate Services, the Eastside vacancy rate is 17.4 percent for the first quarter of 2011 compared to 19.7 percent for the first quarter of 2010. Kirkland's 2011 vacancy rate is 21.6 percent, significantly lower than the 2010 rate of 30.6 percent. Continuing trends seen in 2010, the first quarter of 2011 has seen a steady decrease in vacancy rates in Kirkland.

The Puget Sound regional market recovery appears to continue with nearly 425,000 square feet of positive absorption during the first quarter, with 31 percent occurring on the Eastside. Positive absorption occurs when the total amount of available office space decreases during a set period.

Brokers agree that as the economy improves vacancy rates will continue to drop and rental rates will increase.

LODGING TAX REVENUE:

Lodging tax 2011 revenue is up 8.1 percent compared to the same period last year.

Economic Environment Update Washington State's economy continues to recover, but slowly and hesitantly according to the latest update from the Washington State Economic and Revenue Forecast Council. Employment continues to rise at a slow pace, and consumer spending appears to be holding. However, home prices according to the CaseShiller Home Price Index for Seattle declined each of the past eight months and in March were 6.6 percent lower than 2010. The Japanese earthquake and tsunami are a short-term threat to recovery as there is evidence of exports to Japan backing up at Washington ports. As Japanese infrastructure is rebuilt and shipments are able to be received, it is expected that exports to Japan will recover. The national forecast in contrast is more positive than what is presented for the state. The side bar on page 9 presents information on the national forecast based on a survey done by the Federal Reserve Bank of Philadelphia.

The U.S. **consumer confidence index** fell to **63.8** in March after jumping to 72.0 in February, the highest level in three years. February was considerably higher than January, which was 64.8. Despite the drop in March, consumer confidence levels for the first quarter of 2011 have remained near levels not seen since May 2010 (63.3). An index of 90 indicates a stable economy and one at or above 100 indicates growth.

King County's **unemployment rate** was **8.4 percent** in March 2011 compared to 8.9 percent in March 2010. While remaining high compared to a few years ago, King County is considerably lower than both Washington State and national rates, which are 9.7 and 9.2 percent respectively.

The Western Washington chapter of **Purchasing Managers survey index** saw a **decrease** in March at **65.0**, down from 71.2 in February. The national survey index also decreased to 61.2 from 61.4. Both indexes are similar to those seen throughout 2010. An index reading greater than 50 indicates a growing economy, while scores below 50 suggest a shrinking economy.

(Continued on page 8)

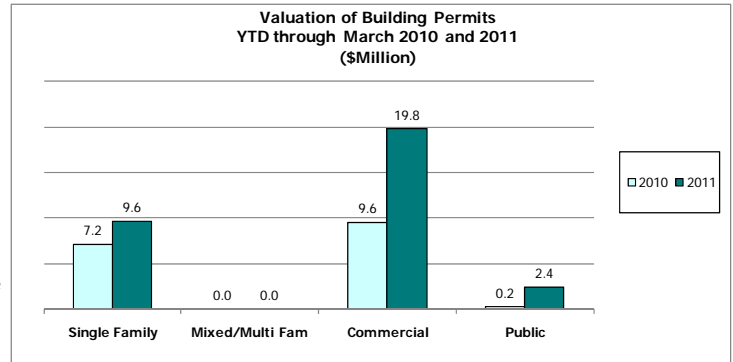
Local **development activity** through March comparing 2010 to 2011 as measured by the valuation of City of Kirkland building permits is illustrated in the chart to the right. Activity has improved in the single family, commercial and public sectors. However, there has been no activity in the mixed use/multifamily. The first quarter 2011 building permit valuation was 87 percent more than the first quarter of 2010.

Closed sales of **new and existing single-family homes** on the Eastside were down 5.5 percent in March 2011 compared to March 2010. However, the median price of a single family home increased 0.4 percent (\$497,150 compared to \$495,000).

Closed sales for condominiums were down 11.5 percent and the median price dropped 5.4 percent (to \$240,000 from \$253,832).

Countywide, closed sales were down 4.5 percent compared to 2010. March had more single family closed sales than any month since June 2010. This upswing in sales is attributed to consumer concerns about potential increases to mortgage interest rates, which have been increasing since November 2010, and lower prices.

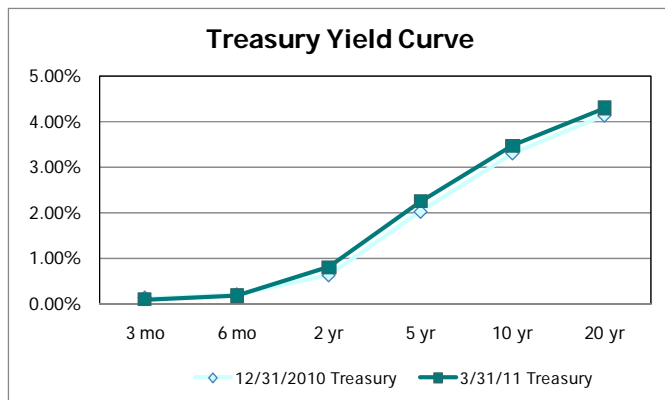
Seattle metro consumer price index (CPI), in February was the highest it has been since December 2009, at 2.1 percent. The Seattle index is calculated bi-monthly. The national index was 2.3 percent in February and 3.0 percent in March. Since December, the CPI in Seattle and nationally has increased by more than 1.0 percent. According to the U.S. Bureau of Labor Statistics, this increase was impacted by higher prices for gasoline and shelter. The June 2010 index was the contractual basis for 2011 cost of living (COLA) increases and was down 0.10 percent compared to June 2009, which means that employees received no cost of living adjustment in 2011, for the second consecutive year. CPI is used to identify periods of inflation or deflation.



Investment Report

MARKET OVERVIEW

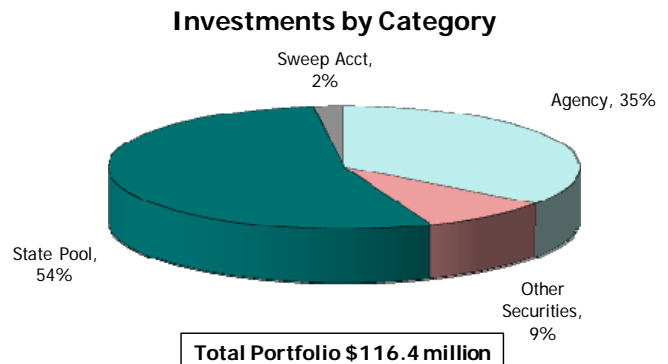
The Fed Funds rate remained at 0.25 percent during the first quarter of 2011 as the economy continued giving mixed signals of a slow recovery. The yield curve remained almost unchanged with only slight increases in interest rates from the 2 Year maturity out to the 20 Year maturity.



CITY PORTFOLIO

The primary objectives for the City of Kirkland's investment activities are: legality, safety, liquidity and yield. Additionally, the City diversifies its investments according to established maximum allowable exposure limits so that reliance on any one issuer will not place an undue financial burden on the City.

The City's portfolio decreased in the first quarter of 2011 to \$116.4 million compared to \$118.3 million on December 31, 2010. The decrease in the portfolio is related to the normal cash flows of the first quarter, as the first half of property taxes is received at the end of April.



Diversification

The City's current investment portfolio is composed of Government Sponsored Enterprises (GSEs) bonds, State and Local Government bonds, the State Investment Pool and an overnight bank sweep account. City investment procedures allow for 100 percent of the portfolio to be invested in U.S. Treasury or Federal Government obligations.

2011 ECONOMIC OUTLOOK and INVESTMENT STRATEGY

As of March 31st, the outlook for growth in the U.S. economy looks more positive now than it did just three months ago, according to 43 forecasters surveyed by the Federal Reserve Bank of Philadelphia. The U.S. economy is expected to grow at an annual rate of 3.2 percent in 2011. CPI inflation is expected to average 1.7 percent in 2011 and 2.0 percent in 2012. The unemployment rate is expected to average 9.1 percent in 2011 and fall to 8.5 percent in 2012. The Fed Funds rate, currently at 0.25 percent, is expected to remain at this level throughout 2011.

The duration of the portfolio will decrease as securities mature and are called. Opportunities for increasing portfolio returns are scarce as shorter term interest rates continue at historically low levels. New security purchases will be made as opportunities to obtain moderate returns become available. During periods of low interest rates the portfolio duration should be kept shorter with greater liquidity so that the City is in a position to be able to purchase securities with higher returns when interest rates begin to rise. The State Pool is currently at 0.23 percent and will continue to remain low as the Fed Funds rate remains at 0.00 to 0.25 percent. Total estimated investment income for 2011 is \$785,000.

Investment Report *continued*

Liquidity

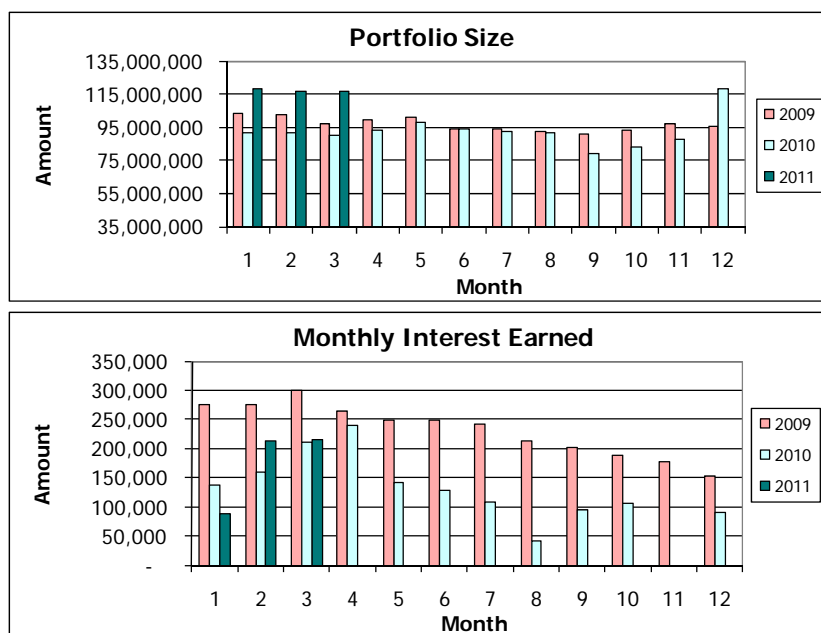
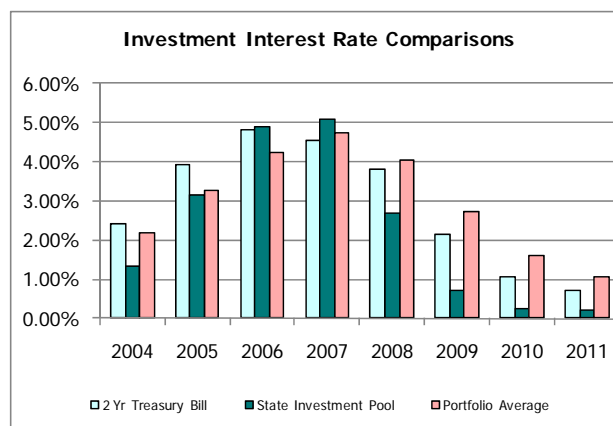
The target duration for the City's portfolio is based on the 2 year treasury rate which increased from 0.61 percent on December 31, 2010 to 0.80 percent on March 31, 2011. The average maturity of the City's investment portfolio increased slightly from 1.07 years on December 31, 2010 to 1.28 years on March 31, 2011 due to the purchase of longer term securities which gained slightly higher yields. It is expected that those securities will be called on their call dates as the interest rates of the securities are higher than current rates.

Benchmark Comparison	December 31, 2010	March 31, 2011
City Yield to Maturity	1.00%	1.03%
City Average YTM	1.61%	1.08%
City Year to Date Yield	1.75%	1.48%
90 Day Treasury Bill	0.17%	0.09%
2 yr Rolling Avg 2 yr T Note	0.80%	0.78%

Yield

The City Portfolio yield to maturity increased from 1.00 percent on December 31, 2010 to 1.03 percent on March 31, 2011. Through March 31, 2011, the City's annual average yield to maturity was 1.08 percent. The City's portfolio benchmark is the range between the 90 day Treasury Bill and the 2 year rolling average of the 2 year Treasury Note. This benchmark is used as it is reflective of the maturity guidelines required in the Investment Policy adopted by City Council.

The City's portfolio outperformed both the 90 day T Bill and the 2 year rolling average of the 2 year Treasury Note, which was 0.78 percent on March 31, 2011. The City's practice of investing further out on the yield curve than the State Investment Pool results in earnings higher than the State Pool during declining interest rates and lower earnings than the State Pool during periods of rising interest rates. This can be seen in the graph above.



Reserves are an important indicator of the City's fiscal health and effectively represent "savings accounts" that are established to meet unforeseen budgetary needs (general purpose reserves) or are dedicated to a specific purpose. The reserves are listed with their revised estimated balances at the end of the biennium as of March 31, 2011.

Reserve Analysis

General Purpose Reserves

- The **Revenue Stabilization Reserve** was used almost in its entirety during the 2009-10 biennium as part of the budget balancing strategy to address the severe economic downturn and allowed the City to mitigate some negative impacts to services. General Fund 2010 year-end cash is used to replenish this reserve in the amount of \$600,000 in 2011 and further replenishment will be a high priority.
- The **Building and Property Reserve** is a planned use as part of the funding sources available for facility expansion and renovation projects, which include the new Public Safety Building, Maintenance Center, and City Hall.

General Capital Reserves

- The downturn in real estate transactions over the last few years has significantly impacted **Real estate excise tax (REET)** collections resulting in adjustments to capital project planning to reflect available funding. First quarter 2011 revenue is about 18 percent ahead of first quarter 2010 and appears to be on target with budget. However, since this revenue is highly volatile, it is difficult to predict whether this trend will continue throughout the year. It also is less than half of the revenue received in 2007.
- **Impact fees** have also been significantly reduced as a result of the severe downturn in development activity, resulting in adjustments to capital projects plans. First quarter 2011 revenue is about 20 percent behind the same period in 2010 and both years fall far below historical trends. As a result, there is no planned use of this revenue for projects in the current budget cycle.

Internal Service Fund Reserves

- **Systems Reserve** (Information Technology) during the current biennium is expected to use most of this reserve for replacement of the Maintenance Management System.
- The **Radio Reserve** (Fleet) was used in its entirety as small part of the funding source for a major replacement of police and fire radios that began in 2010, and is expected to finish by the end of 2012.
- City Council provided direction to staff as part of the 2011-12 budget process to develop recommendations for establishing new sinking fund reserves for technology and public safety equipment (including radios) for consideration in the 2013-14 budget process to address the lack of ongoing funding for the periodic replacement of these items.

General Government & Utility Reserves Targets Summary

Reserves	2011 Beginning Balance	Adopted 2012 Ending Balance	Revised 2012 Ending Balance	2011-12 Target	Revised Over (Under) Target
GENERAL PURPOSE RESERVES WITH TARGETS					
General Fund Reserves:					
General Fund Contingency	50,000	50,000	50,000	50,000	0
General Oper. Reserve (Rainy Day)	2,806,513	2,806,513	2,806,513	4,127,496	(1,320,983)
Revenue Stabilization Reserve	131,431	731,431	731,431	2,279,251	(1,547,820)
Council Special Projects Reserve	201,534	251,534	246,534	250,000	(3,466)
Contingency	2,051,870	2,201,870	2,201,870	4,016,232	(1,814,362)
General Capital Contingency:	4,844,957	4,669,463	4,669,463	6,766,320	(2,096,857)
General Purpose Reserves with Targets	10,086,305	10,710,811	10,705,811	17,489,299	(6,783,488)
ALL OTHER RESERVES WITH TARGETS					
General Fund Reserves:					
Litigation Reserve	70,000	70,000	70,000	50,000	20,000
Firefighter's Pension Reserve	1,596,900	1,736,098	1,736,098	1,568,207	167,891
Health Benefits Fund:					
Claims Reserve	0	1,424,472	1,424,472	1,424,472	0
Rate Stabilization Reserve	0	500,000	500,000	500,000	0
Excise Tax Capital Improvement:					
REET 1	1,530,280	1,019,907	1,019,907	1,035,000	(15,093)
REET 2	7,121,695	4,975,718	4,892,465	11,484,000	(6,591,535)
Water/Sewer Operating Reserve:	1,979,380	1,979,380	1,939,380	1,979,380	(40,000)
Water/Sewer Debt Service Reserve:	822,274	508,717	508,717	508,717	0
Water/Sewer Capital Contingency:	1,793,630	1,793,630	1,793,630	250,000	1,543,630
Surface Water Operating Reserve:	412,875	412,875	412,875	412,875	0
Surface Water Capital Contingency:	858,400	858,400	858,400	758,400	100,000
Other Reserves with Targets	16,185,434	15,279,197	15,155,944	19,971,051	(4,815,107)
Reserves without Targets	29,828,776	35,498,348	35,393,348	n/a	n/a
Total Reserves	56,100,515	61,488,356	61,255,103	n/a	n/a

The target comparison reflects revised ending balances to the targets established in the budget process for those reserves with targets

General Purpose reserves are funded from general revenue and may be used for any general government function.

All Other Reserves with Targets have restrictions for use either from the funding source or in the case of Litigation Reserve, by Council-directed policy.

The summary to the right details all Council authorized uses and additions to each reserve for the biennium through March 2011

USES AND ADDITIONS HIGHLIGHTS

RESERVE	AMOUNT	DESCRIPTION
2011-12 Council Authorized Uses		
Council Special Projects Reserve	\$5,000	Eastside Severe Weather Shelter
Excise Tax Capital REET 2	\$83,253	6th Street
Street Improvement Fund	\$5,000	Highway 520 Traffic Counts
Water/Sewer Operating Reserve	\$40,000	NE 85th Street Emergency Watermain Repair
Water/Sewer Construction Reserve	\$100,000	99th Place NE/100th Ave NE Sidewalk
2011-12 Council Authorized Additions		

No Authorized City Council additions as of March 31, 2011

General Fund and Contingency reserves are funded from general purpose revenue and are governed by Council-adopted policies.

Note: Fund structure changes required by new accounting requirements moved many of the General Purpose reserves out of the Parks & Municipal Reserve Fund (which was closed) and to the General Fund.

Special Purpose reserves reflect both restricted and dedicated revenue for specific purpose, as well as general revenue set aside for specific purposes.

General Capital Reserves provide the City the ability to respond to unexpected changes in costs and accumulate funds for future projects. It is funded from both general revenue and restricted revenue.

Utility reserves are funded from utility rates and provide the utilities with the ability to respond to unexpected costs and accumulate funds for future replacement projects.

Internal service funds are funded by charges to operating departments. They provide for the accumulation of funds for replacement of equipment, as well as the ability to respond to unexpected costs.

Reserves	Description	2011 Beginning Balance	Adopted 2012 Ending Balance	Additional Authorized Uses/Additions	Revised 2012 Ending Balance
GENERAL FUND/CONTINGENCY					
General Fund Reserves:					
General Fund Contingency	Unexpected General Fund expenditures	50,000	50,000	0	50,000
General Oper. Reserve (Rainy Day)	Unforeseen revenues/temporary events	2,806,513	2,806,513	0	2,806,513
Revenue Stabilization Reserve	Temporary revenue shortfalls	131,431	731,431	0	731,431
Building & Property Reserve	Property-related transactions	1,972,213	1,972,213	0	1,972,213
Council Special Projects Reserve	One-time special projects	201,534	251,534	(5,000)	246,534
Contingency	Unforeseen expenditures	2,051,870	2,201,870	0	2,201,870
Total General Fund/Contingency		7,213,561	8,013,561	(5,000)	8,008,561
SPECIAL PURPOSE RESERVES					
General Fund Reserves:					
Litigation Reserve	Outside counsel costs contingency	70,000	70,000	0	70,000
Labor Relations Reserve	Labor negotiation costs contingency	70,606	70,606	0	70,606
Police Equipment Reserve	Equipment funded from seized property	50,086	50,086	0	50,086
LEOFF 1 Police Reserve	Police long-term care benefits	618,079	618,079	0	618,079
Facilities Expansion Reserve	Special facilities expansions reserve	800,000	800,000	0	800,000
Development Services Reserve	Revenue and staffing stabilization	502,011	652,011	0	652,011
Tour Dock	Dock repairs	81,745	81,745	0	81,745
Tree Ordinance	Replacement trees program	29,117	29,117	0	29,117
Donation Accounts	Donations for specific purposes	185,026	185,026	0	185,026
Revolving Accounts	Fee/reimbursement for specific purposes	436,386	436,386	0	436,386
Cemetery Improvement	Cemetery improvements/debt service	439,415	439,415	0	439,415
Off-Street Parking	Downtown parking improvements	10,776	10,776	0	10,776
Firefighter's Pension	Long-term care/pension benefits	1,596,900	1,736,098	0	1,736,098
Total Special Purpose Reserves		4,890,147	5,179,345	0	5,179,345
GENERAL CAPITAL RESERVES					
Excise Tax Capital Improvement:					
REET 1	Parks/transportation/facilities projects, parks debt service	1,530,280	1,019,907	0	1,019,907
REET 2	Transportation capital projects	7,121,695	4,975,718	(83,253)	4,892,465
Impact Fees:					
Roads	Transportation capacity projects	525,095	1,112,245	0	1,112,245
Parks	Parks capacity projects	2,033	3,038	0	3,038
Street Improvement	Street improvements	1,092,258	1,092,258	(5,000)	1,087,258
General Capital Contingency	Changes to General capital projects	4,844,957	4,669,463	0	4,669,463
Total General Capital Reserves		15,116,318	12,872,629	(88,253)	12,784,376
UTILITY RESERVES					
Water/Sewer Utility:					
Water/Sewer Operating Reserve	Operating contingency	1,979,380	1,979,380	(40,000)	1,939,380
Water/Sewer Debt Service Reserve	Debt service reserve	822,274	508,717	0	508,717
Water/Sewer Capital Contingency	Changes to Water/Sewer capital projects	1,793,630	1,793,630	0	1,793,630
Water/Sewer Construction Reserve	Replacement/re-prioritized/new projects	7,870,665	9,871,542	(100,000)	9,771,542
Surface Water Utility:					
Surface Water Operating Reserve	Operating contingency	412,875	412,875	0	412,875
Surface Water Capital Contingency	Changes to Surface Water capital projects	858,400	858,400	0	858,400
Surface Water-Transp. Related Rsv	Replacement/re-prioritized/new projects	2,483,250	3,666,250	0	3,666,250
Surface Water Construction Reserve	Trans. related surface water projects	2,848,125	3,376,431	0	3,376,431
Total Utility Reserves		19,068,599	22,467,225	(140,000)	22,327,225
INTERNAL SERVICE FUND RESERVES					
Health Benefits:					
Claims Reserve	Health benefits self insurance claims	0	1,424,472	0	1,424,472
Rate Stabilization Reserve	Rate stabilization	0	500,000	0	500,000
Equipment Rental:					
Vehicle Reserve	Vehicle replacements	7,718,221	8,047,063	0	8,047,063
Radio Reserve	Radio replacements	0	0	0	0
Information Technology:					
PC Replacement Reserve	PC equipment replacements	258,311	318,646	0	318,646
Major Systems Replacement Reserve	Major technology systems replacement	245,500	84,900	0	84,900
Facilities Maintenance:					
Operating Reserve	Unforeseen operating costs	550,000	550,000	0	550,000
Facilities Sinking Fund	20-year facility life cycle costs	1,039,858	2,030,515	0	2,030,515
Total Internal Service Fund Reserves		9,811,890	11,031,124	0	11,031,124
Grand Total		56,100,515	61,488,356	(233,253)	61,255,103



123 5th Avenue
Kirkland, Washington 98033
425-587-3101

- ◆ Tracey Dunlap, Director of Finance & Administration
- ◆ Michael Olson, Deputy Director of Finance & Administration
- ◆ Sri Krishnan, Financial Planning Manager
- ◆ Neil Kruse, Senior Financial Analyst
- ◆ Tammy McCorkle, Budget Analyst
- ◆ Karen Terrell, Budget Analyst

www.kirklandwa.gov

The Financial Management Report (FMR) is a high-level status report on the City's financial condition that is produced quarterly.

- It provides a **summary budget to actual comparison** for year-to-date revenues and expenditures for all operating funds. The report also compares this year's actual revenue and expenditure performance to the prior year.
- The **Sales Tax Revenue Analysis** report takes a closer look at the City's largest and most economically sensitive revenue source.
- **Economic environment** information provides a brief outlook at the key economic indicators for the Eastside and Kirkland such as office vacancies, residential housing prices/sales, development activity, inflation and unemployment.
- The **Investment Summary** report includes a brief market overview, a snapshot of the City's investment portfolio, and the City's year-to-date investment performance.
- The **Reserve Summary** report highlights the uses of and additions to the City's reserves in the current year as well as the projected ending reserve balance relative to each reserve's target amount.

Economic Environment Update References:

- Carol A. Kujawa, MA, A.P.P., *NAPM-Western Washington Report On Business*, National Assoc. of Purchasing Management, March, 2011
- Eric Pryne, *More Spring in Local Home Sales, But Too Soon to Call it a Trend*, The Seattle Times, April 6, 2011
- Lucia Mutikani, *February Consumer Confidence Jumps to 70.4*, Market Watch, February 22, 2011
- CB Richard Ellis Real Estate Services, Market View Puget Sound, First Quarter 2011
- Economic & Revenue Update—Washington State Economic & Revenue Forecast Council
- Consumer Board Confidence Index
- U.S. Bureau of Labor Statistics
- Washington State Employment Security Department
- Washington State Department of Revenue
- Washington State Department of Labor & Industries
- City of Kirkland Building Division
- City of Kirkland Finance & Administration Department